

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2006-97-WS - ORDER NO. 2006-\_\_\_\_  
OCTOBER \_\_, 2006

IN RE: Application of Tega Cay Water Service, Inc.	)	ORDER APPROVING
for adjustment of rates and charges and	)	SETTLEMENT
modifications to certain terms and conditions	)	AGREEMENT AND
for the provision of water and sewer service.	)	RATES AND CHARGES
	)	CONTAINED THEREIN

This matter comes before the Public Service Commission of South Carolina (hereinafter the “Commission”) on the proposed Settlement Agreement (“Agreement”) filed by the Office of Regulatory Staff (“ORS”) and Tega Cay Water Service, Inc. (“TCWS” or “the Company”) (together “parties).

This matter was initiated on April 3, 2006 when TCWS filed an Application for the adjustment of rates and charges and for modifications to certain terms and conditions for the provision of water and sewer service with this Commission. See S.C. Code Ann.§58-5-240 (Supp.2005). By its application, the Company sought an increase in annual water and sewer revenues of \$196,542.00.

By letter dated April 13, 2006, the Commission’s Docketing Department instructed TCWS to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by TCWS’s Application. The Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. In the same letter, the Commission also instructed TCWS to notify directly, by U. S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing.

TCWS furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published in a newspaper of general circulation in the area affected by TCWS's application. The Company also provided the Commission with a letter in which TCWS certified that it had complied with the instruction of the Commission's Docketing Department to mail a copy of the Notice of Filing to all customers affected by the Application. On July 11, 2006, a hearing for public comment was held in York County, South Carolina in the Tega Cay City Hall located in Fort Mill.

No Petitions to Intervene were filed in this case in response to the Notice of Filing. Pursuant to S.C. Code Ann. Section 58-4-10(B)(Supp. 2005), ORS is a party of record in this proceeding. Further, ORS and TCWS are the only parties of record in the above-captioned docket.

As a result of settlement negotiations between them, the parties have determined that their interests are best served by settling the dispute in this matter under the terms and conditions set forth below. ORS stated its belief in the Agreement that the settlement serves the public interest, preserves the financial integrity of the Company, and promotes economic development within the State of South Carolina. By signing the Settlement Agreement, all counsel acknowledged their respective clients' consent to its terms. The Settlement Agreement provided that the parties viewed the terms of the Agreement to be just and reasonable.

A public hearing was held before the Commission on August 22, 2006 at the Commission's offices located at 101 Executive Center Drive, Columbia, South Carolina. No public witnesses appeared to testify at this hearing. TCWS was represented by John M.S. Hoefer, Esquire, and the ORS was represented by Jeffrey M. Nelson, Esquire, and Wendy B. Cartledge, Esquire. At this hearing, the parties offered into the record the Settlement Agreement dated August 21, 2006. The parties further introduced into the record and stipulated to the prefiled testimony and exhibits of

TCWS witnesses Bruce T. Haas and Lena Sunardio and ORS witnesses Willie Morgan and Daniel Sullivan. At the conclusion of the parties' statements, the Commission set a hearing on August 29, 2006 for a formal settlement hearing to be held. During the settlement hearing, the parties stipulated to include in the record the settlement testimony of Converse A. Chellis, III and Dr. B. R. Skelton. Mr. Chellis and Dr. Skelton additionally answered questions from the Commission regarding the terms and conditions of the Settlement Agreement.

Witness Chellis testified that the company had accepted all of the accounting adjustments of the ORS and stated that the Settlement Agreement was in the public interest. Witness Skelton supported the 9.4% Return on Equity agreed to by the parties as a reasonable Return on Equity for the Company in the context of a comprehensive settlement of this specific case. In summary, both Dr. Skelton and Mr. Chellis recommended approval of the Settlement Agreement.

The parties asserted before the Commission that the Settlement Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable to both the Company and its customers. Specifically, TCWS has agreed to reduce its original requested increase in water and sewer revenues of \$196,542.00 to an agreed upon increase in annual revenues of \$59,619.00. This increase is based upon the agreed upon ORS accounting adjustments and the agreed upon return on equity of 9.40%. The 9.40% return on equity yields a 7.64% rate of return on rate base with a resulting operating margin of 6.95%. As part of the Settlement Agreement, TCWS also has agreed to file with this commission a performance bond for water operations in the amount of \$300,000.00 and a performance bond for sewer operations in the amount of \$350,000.00. Further, TCWS has stipulated in the Agreement to deliver to the State of South Carolina, by not later than December 31, 2006, the sum of \$10,822.92 pursuant to the terms of the South Carolina Unclaimed

Property Act, which is the balance of refund monies posted to inactive accounts per Order Nos. 1991-191, 1999-457 and 1999-733 in TCWS's last rate case.

We find that the rates agreed to by the parties are just and reasonable and that such allow TCWS to continue to provide its customers with adequate water and sewer service as well as to further promote the conservation of water resources. The proposed increase in water and sewer rates is reasonable in this matter. The Company's customers have benefited from the financial and operational stability of the Company and it is clear that the Company is currently operating under rates that do not allow it to earn a fair return on its investment. It appears to the Commission that the Settlement Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable. Further, the agreed upon rates allow the Company to earn a reasonable return on its investment. The parties therefore agreed and stipulated to certain rates and charges which we hereby approve and which are specified in Exhibit E to the Settlement Agreement, which is hereby adopted and attached to this Order as Order Exhibit 1. We agree, and hereby find, that the rates and charges contained in Exhibit E to the Settlement Agreement are just and reasonable.

After review and consideration by this Commission of the Settlement Agreement, the evidence contained in the record of this case, the testimony of the witnesses, and the representations of counsel, the Commission concludes as a matter of law that the Settlement Agreement results in just and reasonable rates and fees for water and sewer agreed to by the Parties, and as set forth in Exhibit E to the Settlement Agreement attached hereto, are both reasonable and prudent. Based on the operating revenues, income, and expenses agreed upon by the parties, the resulting allowable operating margin for the Company is 6.95%. See S.C. Code Ann. § 58-5-240(H).

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, including attachments and attached hereto as Order Exhibit 1 and is incorporated into and made a part of this Order by reference.
2. The statement of proposed rates, attached as Exhibit E to the Settlement Agreement, has been entered into the record of this case without objection. We find that the proposed rates are both just and reasonable and will allow the Company to continue to provide its customers with adequate water and wastewater services.
3. A 9.40% rate of return on equity, a 7.64% return on rate base, and an operating margin of 6.95% are approved for Tega Cay.
4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

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G. O'Neal Hamilton, Chairman

ATTEST:

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C. Robert Moseley, Vice-Chairman